most, the Telecom Act is very specific as to the requirements that are placed upon the telecommunications carriers such as BST. In the area of directories, BellSouth is required, and we have met that requirement, of white page listings. AT&T and any other carrier can list their customers' listings in our white pages in a non-discriminatory manner. In other words, full parity. The Telecom Act does not deal with yellow page listings; yet, BAPCO has undertaken with carriers such as AT&T negotiations that deal with yellow page listings. Similarly, BAPCO has dealt with the issue of call guide pages; again, it is not a requirement of the Act, but rather something that BAPCO thinks is a good business relationship.

So we do not believe, first of all, that the issue of logo is even an issue subject to any arbitration. It is well outside the scope of the Act and the requirements of the Act. That issue has been supported in every decision we have obtained in our region in arbitration, without exception.

Secondly, BAPCO has cooperated with every carrier to the extent possible. It has contracts with several carriers for directory issues well beyond the white page listings issue, and we believe has gone far beyond what is technically required, but is certainly willing to deal in that area.

So, to summarize, they're not telecom carriers, they're not subject to arbitration. The issue of logo is not subject to arbitration. The only issue is the white page listings, and that is not even subject to arbitration here since we and AT&T agree on that; and beyond that, there should be no issue for this Commission to have to decide. As I said, all other commissions in the region have looked at the same issue and drew the exact same conclusion. Thank you.

A *[Mr. Varner]* I'd like to add one thing also to that—what was mentioned about a letter that came from BST regarding 10XXX listing. I'm not familiar with the letter specifically. However, we had been listing 10XXX codes in BST's call guide pages which we purchase from BAPCO, and if that's what the letter refers to, it would be appropriate for BST to send the letter since it was our call guide pages that we purchased from BAPCO wherein those 10XXX listings were being listed.

Q *[Mrs. Taylor]* This Commission is aware of many of the rulings in the other BellSouth states that have been issued thus far, and we would like to be informed as to why this Commission should grant the request of AT&T. And I would direct that to AT&T.

A *[Ms. Winegard]* I would hope that this Commission would look at every way it can to promote the development of competition and to assure that its constituents are not confused with the development of local competition. And for the development of competition, publishing the names and logos of all carriers on the predominant directory would further both of those purposes. It would assure consumers that their names and numbers are listed in the directory regardless of whether they subscribe to the service of BellSouth, or the services of AT&T, MCI, or any other carrier; and it would likewise assure them that the names and numbers of the individuals that they want to call are likewise published in that directory, and it would clearly show that there were competing carriers in South Carolina and eliminate any confusion.

So I think to promote the non-discriminatory purposes of the Act and to eliminate customer confusion, it is in the best public policy interest of this Commission to order BellSouth to include AT&T's logo on the cover of the directory. Thank you.

Q *[Mrs. Taylor]* How, as a practical matter, do you think this Commission could order BAPCO to fulfill AT&T's request when, in fact, it is not a party of record to this arbitration; or, if the Commission were to direct BellSouth to fulfill the request, how, in fact, could BellSouth bind BAPCO to fulfill the Commission's order? And this, again,

is to AT&T.
A *[Ms. Winegard]* BellSouth Telecommunications and BAPCO share a corporate parent—BellSouth Corporation—they share shareholders, and we believe they also do share employees and assets. We believe that this Commission can order BellSouth Telecommunications to direct it to direct BAPCO to include our name and logo on the directory.
Q *[Mrs. Taylor]* And if the BellSouth panel would like to respond to these issues at this time—and I'll be glad to repeat any questions if necessary?
A [*Mr. Scheye*] I just want to make one point, just a clarifying point. BellSouth Telecommunications cannot direct BAPCO. BAPCO is a separate entity. The relationship, we do not share resources, we do not share employees.
And, again, I think the issue—Mr. Carroll held up a directory page, a cover. It is very identical or very similar to the directory covers in every other state where we have arbitrated this issue. The same issue has arisen. As I said, every commission has come to absolutely the same conclusion: this issue is not subject to arbitration, it is well beyond the requirements of the Telecom Act, and certainly is well beyond the requirements of BST as a telecommunications service provider.
Q *[Mrs. Taylor]* Would you like to expand on the corporate structure of the two companies, and any affiliation or

relation, if any?

A [*Mr. Scheye*] BAPCO is a subsidiary of BellSouth Corporation. BellSouth Telecommunications is also a subsidiary of BellSouth Corporation. And that's basically the extent of the relationship. They are separate entities, they operate independently from us, we operate independently from them. To give you an example of how that relationship has worked with the 30 or 40 parties we've reached agreements with, and negotiated agreements, each of those parties, to the extent that they wanted any directory listings, guide pages, etcetera, signed a separate agreement with BAPCO. It was not signed by a BST employee; it was signed by a BAPCO employee. Those negotiations were held totally independently. BST employees did not participate. Similarly, when BST negotiated with the parties on non-listing directory matters, BAPCO was not involved.

So it was dealt with totally separately. As a convenience, we would send them a document, two documents at the same time for signature, the BAPCO document and the BST document, but that was the only commonality. We are separate entities, and we do not direct each other as to what we should do, and I'm sure that they would not accept our direction if we were to try to give it to them.

Q *[Mrs. Taylor]* Are any officers, directors, or employees or resources shared by the two companies?

A [*Mr. Scheye*] There's certainly no resources shared. To the extent that there are officers shared, to the best of my knowledge, there are none. BAPCO has its own officer and a board of directors, etcetera, as does BST. And to my knowlege, there's no sharing of resources or capabilities.

Q *[Mrs. Taylor]* In your opinion, then, BST and BAPCO operate entirely independent of one another, is that correct?

A [*Mr. Scheye*] I can tell you from my personal experience, yes, they do; and personally having dealt with the negotiations of many, many carriers, having negotiated on behalf of BST and watching BAPCO negotiate on behalf of BAPCO, they were totally independent, separate operations.

Q *[Mrs. Taylor]* And AT&T has an opportunity to respond briefly, if you wish.

A *[Ms. Winegard]* What I do know is that if you call the one number listed in the directory in Atlanta, Georgia, there is one number to get a directory delivered to your home, to get repair to your local telephone service, or to make any changes to your local telephone service. So, to that extent, from personal knowledge, there are shared resources between BAPCO and BST.

A [*Mr. Carroll*] I want to add one comment again, and it is readily apparent whose name is on this, and Don Perozzi, who heads up BAPCO, when I met with him, I asked him a simple question: *"What are the terms and conditions to appear on this cover equal to BellSouth?"* He would not disclose those; that was not an option at all. So, it appears to me that someone is directing them, and I believe it's readily apparent.

Q *[Mrs. Taylor]* Do the Commissioners have any questions on this issue at this time?

COMM. ARTHUR: I do.

EXAMINATION BY COMMISSIONER ARTHUR:

Q Is there still a competing telephone book out there?

A *[Mr. Scheye]* I believe there are alternate yellow page type books out there. BST also sells its listings to any carrier who wishes to use them for directory assistance purposes and, presumably, for directory purposes to the extent they wanted to. So, certainly the information is there for any provider.

Q I remember, I've seen one; I hadn't seen one recently, but I used to get one, a competing, independent telephone book. Is that still available now? Do y'all know that? Can anybody answer that question?

A *[Mr. Carroll]* I would say that it's very *de minimis,* and one of the ways to indicate this has to do with price for call guide pages, which run about $25,000 per page—and when we did, I think $50,000 is my memory about what we're paying for the call guide pages we're putting in, and I'm pulling those off my memory—we could not find a competing entity to deal with that as a way to leverage that price down, and we did do some calling around to other entities to try to find out why PacBell or SNET or U.S.West or other companies charge. We found quite a disparity in those rates, but in this area we couldn't get any kind of bid on those rates. So we went ahead and paid that price and authorized the call guide pages on the inside. But that's the only evidence we have of any kind of dominant carrier in terms of an area. Very superficial, but that's the indication we have.

VICE CHAIRMAN BRADLEY: Any other Commissioners have any questions?

[*No Response*]

VICE CHAIRMAN BRADLEY: Okay. Mrs. Taylor?

MRS. TAYLOR: Thank you.

Q *[Mrs. Taylor]* I think we'll move from that issue now, and I believe we might jump right into pricing. First, let's deal with Issue #21 and wholesale rates. Some questions may certainly cross over into Issue #22.

I'll first direct a question to the BellSouth panel. Should the wholesale rates equal retail rates less all direct and indirect costs related to all retail functions, in your opinion?

A *[Mr. Reid]* Walter Reid, and I'll answer that question. The wholesale rates should follow the directions of the Telecommunications Act which says you start with the retail rates, and it's those costs that will be avoided by BellSouth which are used to determine the discount off of that retail rate. That's the plain wording of the Act, and that should be the way that costs are determined—the price.

Q *[Mrs. Taylor]* And now if the AT&T panel would like to respond to that question.

A *[Mr. Lerma]* Yes. My name is Art Lerma, and I'd like to respond to that, and I think I mentioned during my summary that the issue of indirect costs and the term that's used with reference to that is a misnomer because they're not really indirect costs, as such; they are costs directly related to the provision of retail services, but they're not accounted for separately. They are overhead that is basically there only because you have functions being performed by those parts of the company that are involved in the direct provision of retail services. As the size, as the amount of time and effort and labor and time that's being spent in the direct provisioning of retail goes down, obviously there is less of a need for particular areas of overhead. There is a direct correlation between those indirect overhead costs and the direct costs that are related to retailing.

And the Act says specifically all costs that are related to retailing. The only difference here is, they are not accounted for separately.

A *[Dr. Kaserman]* Can I add a response to that, as an economist? Several things. First of all, I have a paper that is attached to my testimony that is forthcoming in the Journal of Regulatory Economics that deals with the avoided cost issue and what should and should not properly be included. This paper has been subjected to peer review by other economists before it was accepted for publication, so it's already gone through a market test, if you will.

The answer to the question is *Yes, it should include direct and indirect costs*, given Mr. Lerma's definition of what these indirect costs are. They are causally attributable to the provision of the retail stage activities and, therefore, should be included in the avoidable costs, or avoided costs. Let me give you an example. What you get into is sort of long run costs versus short run costs, and this gets up the notion of, *Should we only include the costs that we choose to avoid or we can avoid in the short run, or should we include costs that are avoidable in the long run by an efficient provider?*

Suppose the Company has a postage meter that they use to send out bills to retail customers, and that's a fixed piece of capital, they can't turn around and sell it immediately, so let's say it's an indirect cost, it's a fixed cost. So the position may be, *Well, we should not include it in the wholesale rate."* Well, if you don't include it in a wholesale discount, then the competing company that comes into the market has to buy their own postage meter as well to send out their bills, okay. Now, they're paying for two postage meters. They're paying for this company's postage meter in the wholesale rate they apply because it's not deducted from the wholesale discount, it's not included in the discount, so it's not deducted from the retail rate to arrive at the wholesale rate. And then they pay for their own postage meter to send out these things. And you can see what that does is, it creates a barrier to entry into the resale market by forcing the company to pay for the asset twice.

A *[Dr. Parsons]* But, first, with regard to the language in the act, this is the language in the Telecommunications Act which is the most specific among many parts of the Act. It says *costs that will be avoided;* it doesn't discuss or suggest or imply in any way that it is some hypothetical or theoretical notion of costs which could, under some other environment, be avoided. In fact, Dr. Kaserman's statement is directly at odds with the statement that Ms. Winegard made yesterday. Ms. Winegard suggested, properly, that if the avoided cost calculation is done correctly and reflecting only those costs that will be avoided, BellSouth should be indifferent about whether it sells its service to itself or it sells something at wholesale. It clearly appears that BellSouth is not indifferent to the 26 percent wholesale discount.

Having a notion of some costs that could be theoretically avoided if BellSouth was no longer in the retail business is not relevant to the words that are in the Act, if those costs are not avoided—if AT&T in 1998 has 15 percent of the lines in the marketplace, the way the calculation should be done specifically, as the language in the Act itself says, one would want to make a calculation of those costs that will be avoided.

A *[Ms. Winegard]* I would like to respond to that, since he mentioned my name. I did state yesterday—and I stand by my statement—that if the avoided cost discount, the wholesale rate, is calculated correctly, BellSouth will be indifferent because it is the retail costs that are avoided which it will not incur if it sells the service to us, that would be incurred if it sells the service to a retail customer. However, the definition of avoided costs that BellSouth advocates is a much too narrow definition. It should be the costs that are avoidable. Otherwise, the monopoly carrier—BellSouth—can choose to continue inefficient operations. And if you look at the Louisiana Order, if you look at the Georgia Order, if you look at the Alabama GTE-recommended Order—in those cases, all the states have said that that narrow definition is much too narrow, that only the costs that will be avoided; rather, it is the costs that are avoidable by BellSouth when they are providing this service to a competing carrier.

A *[Mr. Lerma]* And I'd like to add one last thing, also, with respect to indirect costs. I've been involved in proceedings, not just throughout BellSouth, but in other Bell Operating Company areas as well, and I'm not aware of any decision yet that hasn't considered indirect costs as part of the avoided cost calculation. I think it's been acknowledged that those are costs that should be addressed. When I think of the fact that, for example, BellSouth in its cost studies acknowledges, for example, that all sales expense related to provisioning of residence and business retail services goes away. Well, if all sales expense goes away, you have an awful lot of people today involved in sales expenses that are human resources, overhead type expenses, that are generated by those people, and I couldn't possibly understand that there wouldn't be any impact on the amount of effort and time spent in that human resource function; and, in fact, if BellSouth says that those costs are not going away, then they're choosing not to have them go away at this point, because I'll tell you from a competitive standpoint, it would be forced to re-look at that whole process, and overheads is generally one of the first places that's looked at to help reduce costs to effectively compete. So I believe indirect costs are costs that definitely should be considered.

A *[Mr. Reid]* May I respond? I'd like to add a few things. One thing is that the AT&T Study is assuming that overhead costs are proportional or directly proportional to the direct avoided expenses. If you start looking at the nature of these costs, for example, if you look at accounting costs, and you look at what accounting costs are included in overhead—you've got costs for filling out our tax returns, costs for our treasury functions, costs for recording our transactions on our books—those costs are not going to be impacted by the fact that we resell to AT&T some of these services. They are assuming in their study that a proportion of that will go away with the direct expenses. The only category in accounting, for example, that I would say would be volume sensitive at all would be the payroll and the voucher related expenses, which might be somewhat sensitive to the level of employees.

However, we are also going to face the facts that the accounting for our business is going to be a lot more complex because now we're going to have a different set of sales channels and so forth that are going to be interplayed between us and the customer in some situations. When we are forecasting and when we are provisioning our services, we can no longer assume that the volume of increase in customers is going to be served by us. We're going to have to deal with that extra complexity in the situation. So that's going to lead to cost increases.

I would like to point out another fact, and that is that the revenues that are subject to resale exclude those revenues like access and directory advertising, which are heavy contributors to our profit margin. So those tariff rates that are subject to resale, in some cases, are below cost. The FCC had this issue thrown up to them and, in dealing with it, their basic answer was that it was okay for below-cost services to receive a discount because they would be accompanied by proportionate decreases in expenditures. That's only true if the costs in the discount equation are those that are actually going to be avoided by BellSouth. If they're not, then that is not true and that statement about it's okay to sell below-cost rates at a discount would not hold water at that point.

So those are the extra comments I had.

VICE CHAIRMAN BRADLEY: Mr. Kaserman, I think you had a response?

A Yes, thank you.

Two things. First of all, in a competitive environment, if there are costs you can avoid, you will avoid them. It's only in this situation where, if you choose not to avoid them, your competitor pays a higher price for the inputs they need to compete with you, would you choose not to avoid costs that you could avoid. So, by adopting the standard that BellSouth is advocating, you create what is commonly called a moral hazard: you create an incentive mechanism for them not to avoid the costs because, by not avoiding them, they keep these people out of the market.

Let me say a word about this indifference notion. I hate to disagree with my own side of the table over here, but I don't think they're going to be indifferent. If I'm a monopolist and I sell something to somebody for resale and I sell it to them with a $10 discount and mY costs go down $10—our revenues went down $10, my costs go down $10—you say, *"Well, gee, you're indifferent; your profits are the same."* I'm not indifferent because my profits are not going to be the same because now I've got a competitor in my market that I have to compete with, and that's where the source of—whatever the opposite of *indifference* is—difference, I guess, comes from. They're not going to be indifferent; they're going to be very concerned about companies coming in to compete with them.

Finally, one last point. There is an attempt here to tie the wholesale discount, which is a per unit wholesale discount, to the market share loss that they're expecting to recover. Nobody expects these people to lose 100 percent of their market. This is an estimation algorithm, and a very neutral assumption, to try to arrive at an estimate of what the per unit avoidable costs or avoided costs are. If the Company can avoid 20 percent per unit by exiting the market, that 20 percent is only applied to the number of units that these people are able to take away from them in a competitive environment. We don't expect them to exit the market, and what it comes down to—this is a little technical and I hesitate to get into it—but it comes down to whether there are economies of scale in the provision of retail stage services or diseconomies of scale; and what this algorithm implicitly assumes is, there are constant returns to scale in the provision of retail services. If there are nonconstant returns to scale—this is not network stuff, this is retail stage—if anything, there are probably diseconomies of scale, and this assumption would actually understate the magnitude of the avoided costs if there are diseconomies. But it's a neutral assumption; it is simply an algorithm. You can't tie the percent avoided per unit to some hypothetical market share loss. The two percentages are just totally independent of each other.

Thank you.

VICE CHAIRMAN BRADLEY: Do any of the Commissioners have any questions regarding this issue? I have one.

EXAMINATION BY VICE CHAIRMAN BRADLEY:

Q I think both sides have used the word *avoided* and *avoidable* two different times. To me, there is a different terminology in those two words. I assume that it is with y'all?

A *[Mr. Varner]* Yes, it is, Commissioner. I keep passing this thing back and forth, so that's what I wanted to get back to. If you look in the language of the Act, and I'll quote—the costs that they're talking about are:

> ... those costs attributable to any marketing, billing, collections, and other costs that will be avoided by the local exchange carrier.

It doesn't say *avoidable;* it says *those costs that will be avoided.*

Taking Dr. Kaserman's example of a postage meter: now, he may not like that we have to continue to have a postage meter if we lose some of the customers and have to continue to send out bills, but we will continual to incur that cost as long as we have customers. Consequently, that cost will not be avoided as a result of having resold some services—

by having some services resold by AT&T. I think that's somewhat of a fallacy that's been created here—the construct that AT&T has put up on their Study has been one that says, *Let's assume BellSouth is no longer a retail company; now, what costs would they not incur?* That's not the standard that was put into the Act. That may be the standard that they would want to apply, but that's not the standard that the Act requires. It says, the costs that will be avoided as a result of having these services available for resale.

VICE CHAIRMAN BRADLEY: Mr. Kaserman, a mighty brief response.

A *[Mr. Gillan]* I've actually been trying to stay out of this, but I guess I can't.

The question back to the difference between what will be avoided and avoidable—I'm not a lawyer, so maybe I don't bring enough complexity to this question, but it seems to me the phrase *will be avoided* and the phrase *avoidable* are basically the same thing. And this use in walking around logic, what are you trying to do? You're trying to figure out how much of the costs are associated with doing retail activities. And if AT&T is doing retail activities and BellSouth isn't, then, it seems to me, the reasonable way of saying that is, *those are the costs that are avoidable or will be avoided.* That's what you're trying to get at:

what are these costs that are retail related, and I guess, in my mind, the simplest example is advertising. Advertising in the future is going to go up for BellSouth because they're going to be competing. But just because they're going to be competing and spending more dollars on advertising doesn't mean that their competitors should pay their advertising costs because Bell is not avoiding them. That's a clear example, in my mind, of something that the point of this is, is to not have the competitor pay for BellSouth's advertising whether or not in the future BellSouth actually spends more or less on it. That's an activity that's not related to providing the wholesale service. And that's really, in that very simple term, what this is all about—is remove it from those retail prices, an estimate of the retail avoided costs.

And, again, we go back and forth on *avoidable* and *avoided* and *will be* and *theoretical,* and Dr. Parsons says it's not supposed to be theoretical. In my world, anytime you use the phrase *will be*, you stepped firmly into theory because we ain't there yet. I think this reality is *has been;* not *will be*.

VICE CHAIRMAN BRADLEY: What I think we need to do at this point is for each question that Mrs. Taylor asks, that whoever she addresses it to would answer, please, and then let's get a response, and then let's move on to the next question, because I understand if we start getting into theories and all this, we're going to be here next week still on two or three of these questions. And I know people have time schedules and flights in and out of Columbia, and etcetera, and what the Commission's schedule is for next week also. So, if we could, let's proceed on that basis and then if the Chair feels like we need to vary on a particular question or something, then we'll do that, but why don't we proceed on that basis.

Thank you. Mrs. Taylor?

Q *[Mrs. Taylor]* Why don't we back up a little bit; we've clearly jumped into the middle of things, and the concerns, and we're going to be crossing over here to some of the good summaries that we've received, but let's back up and discuss your methodologies used to calculate the wholesale discounts, and why you feel that your methodology is superior to your opponent's methodology. And we can begin with BellSouth.

A *[Mr. Reid]* Okay. BellSouth has, and I discuss it some in my testimony, we've provided two calculations of the wholesale discount, a Study that is based on plain wording of the Act, which would be those costs that will be avoided, and we've discussed somewhat that concept. We did a Study, we went through our customer related costs by work activity and we determined those costs that would be avoided when we sell to a reseller that would be interacting with the customer—things like preparing the bill and mailing the bill. In that Study, we did not include the costs that we'll incur to prepare the bill to mail to AT&T. That would be an additional cost that there would be a valid reason to include that, but we didn't have that priced out and we did not include that cost in there. The cost increase is conservative, so it's conservative from that standpoint.

In our FCC Compliance Study, we also did a detailed analysis of all of our work activities, but we did that Study based on the avoidable concept, reasonably avoidable. And in that concept, we did treat most of product advertising and most of sales expenses as avoided or avoidable, and we came up with a 13.2 percent following the FCC's methodology for the wholesale discount under that situation. But, again, it's based on South Carolina data, it's based on a detailed study of 1995 work activity costs, determining what costs would continue under a completely wholesale environment under the FCC's Study.

AT&T has modified the FCC's methodology, in my opinion, in a number of ways. We talked about indirect allocations; in our FCC Compliance Study, we used the formula the FCC used to allocate indirects, and so in that Study we did include indirects as avoided. AT&T modified that formula, and the result of that modification was to drive more indirect costs to avoided than the FCC's formula. The FCC had assumed, for example, 90 percent as a default range for these customer services type accounts, marketing and customer services—and included in these accounts are things like serving the interexchange carriers today. We have a service bureau that, in effect, serves interexchange carriers. The cost of that is in these accounts. The cost of our public business is in these accounts, including the commissions that we pay to the location provider. Those type of costs are in these accounts and should not be avoided or should not be treated as avoided, and we did not in our Study. We did a detailed study of that.

AT&T read the Telecommunications Act to say that all marketing, all billing, all collection costs, should be treated as avoided up front, so 100 percent of those accounts, they treated as avoided, and only a small percentage did they relate to access costs and that small percentage, they apparently got from a BellAtlantic PA, Pennsylvania case, which I'm not really sure how that was computed, but it's certainly not relevant to South Carolina.

So, for that reason, I think our studies—both our BellSouth Study, which we fully support in conformance with the Act, and our FCC Compliance Study are the ones the Commission should take note of.

Thank you.

Q *[Mrs. Taylor]* Before I go to AT&T, let me follow up with a few direct questions. Then we'll move to you.

Does your methodology take into account that an incumbent's rates are not necessarily cost based and may reflect some social pricing considerations?

A *[Mr. Reid]* No, it does not, from the standpoint of the denominator of the equation is the revenue that we've received from those tariffs that are currently approved by the Commission. So, to the extent that those are below-cost tariffs, the denominator of the equation is lower than it otherwise would be if it were stated at full cost, and if we actually rebalanced our rates, the end result would be a lower discount because the revenues, which are the denominator, would be higher—those revenues subject to the services being resold would be higher. So, under that situation, the discount will be a lower number.

In fact, that's one of the main reasons, if you look at the difference between states, if you look at a state like Florida, our formulas and our methodology will produce a higher discount rate, and that's because the revenues subject to resale—the local rates and so forth—are lower because of higher contribution coming from things like access and directory advertising in Florida.

So, no, we have not taken that into consideration at this point. If rates were rebalanced at some later point in time, that would mean the discount is probably overstated at that point.

Q *[Mrs. Taylor]* Does your methodology consider the existing network, as is?

A *[Mr. Reid]* Yes.

Q *[Mrs. Taylor]* Is that required by the Act?

A *[Mr. Reid]* When it comes to the wholesale prices, it probably does because it's relating to the existing tariff rates and the existing services. So it's not unbundling at that point in time. The unbundling issue would be another issue unrelated to the wholesale prices.

Q And now we'll go to the AT&T panel.

A *[Mr. Lerma]* Yes. With respect to the avoided cost model that AT&T has used in this proceeding, I can tell you specifically that the costs that are reflected as avoided are those costs specifically mentioned in the Act in